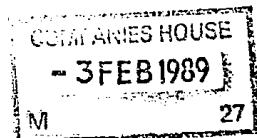


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ARMCO MERCHANDISING LIMITED

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 1987



ARMCO MERCHANDISING LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the financial statements for the year ended 31 October 1987.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

On 1 November 1986 the Company acquired Armco Limited's steel mill merchandising business in exchange for 454,900 ordinary shares of £1 each and cash of £50,000.

Having relocated, the company is now concentrating on the marketing and sales of speciality steel products, including limited selected warehousing. Sales and marketing penetration have been in accordance with objectives and in line with the UK market growth.

RESULTS AND DIVIDENDS

The profit for the year after taxation amounted to £130.160. The directors do not recommend the payment of a dividend.

DIRECTORS

The directors who held office during the year were:

B D H Cooper (Secretary)
B D Green
R J Knox (U S A)
H Schneider (W Germany)

None of the directors has any disclosable interest in the shares of group companies.

AUDITORS

In accordance with section 384 of the Companies Act 1985, a resolution proposing the reappointment of Deloitte Haskins & Sells as auditors to the company will be put to the annual general meeting.

BY ORDER OF THE BOARD

B D H Cooper

B D H Cooper
Secretary

23 December 1988

AUDITOR'S REPORT TO THE MEMBERS OF

ARMCO MERCHANDISING LIMITED

We have audited the financial statements on pages 3 to 10 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 October 1987 and of its profit and source and application of funds for the year then ended and comply with the Companies Act 1985.

DELOITTE HASKINS & SELLS

Chartered Accountants

Croydon

23 December 1988

ARMCO MERCHANDISING LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 OCTOBER 1987

	<u>Notes</u>	<u>1987</u> £	<u>1986</u> £
Turnover	2	3,634,207	-
Cost of Sales		3,410,704	-
Gross profit		223,503	-
Administrative expenses		185,280	-
Other operating expenses		19,872	-
Other operating income		102,574	-
Operating profit	3	120,925	-
Investment Income		19,783	-
Interest Payable		548	-
Profit on ordinary activities before taxation		140,160	-
Taxation	6	7,000	-
Profit on ordinary activities after taxation	12	£133,160 =====	£ - =====

ARMCO MERCHANDISING LIMITED

BALANCE SHEET

AT 31 OCTOBER 1987

	<u>Notes</u>	<u>1987</u> £	<u>1986</u> £
FIXED ASSETS			
Tangible assets	7	8,551	-
CURRENT ASSETS			
Stocks	8	112,572	-
Debtors	9	1,142,445	100
Cash at bank and in hand		319,040	-
		<hr/> 1,574,057	<hr/> 100
CURRENT LIABILITIES			
Creditors: amounts falling due within one year	10	994,448	-
NET CURRENT ASSETS		<hr/> 579,609	<hr/> 100
TOTAL ASSETS LESS CURRENT LIABILITIES		<hr/> 588,160 =====	<hr/> £100 ===
CAPITAL AND RESERVES			
Called up share capital	11	455,000	100
Profit and loss account	12	133,160	-
		<hr/> £588,160 =====	<hr/> £100 ===

The financial statements on pages 3 to 10 were approved by the board of Directors on 23 December 1988 and were signed on its behalf by:

B D GREEN)
) Directors
B D H COOPER)

B. D. Green
B. D. H. Cooper

ARMCO MERCHANDISING LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED 31 OCTOBER 1987

	<u>1987</u> £	<u>1986</u> £
SOURCE OF FUNDS		
Profit on ordinary activities before taxation	140,160	-
Adjustments for item not involving the movement of funds:		
Depreciation	2,850	-
Total generated by operations	<u>143,010</u>	<u>-</u>
Other sources or funds:		
Issue of shares	454,900	-
	<u>£597,910</u>	<u>£nil</u>
APPLICATION OF FUNDS		
Purchase of fixed assets	11,401	-
Net source of funds	<u>£586,509</u> =====	<u>£nil</u> =====
INCREASE/DECREASE IN WORKING CAPITAL		
Increase in stock	112,572	-
Increase in debtors	1,142,345	-
(Increase) in creditors	(987,448)	-
Movement in net liquid funds	319,040	-
	<u>£586,509</u> =====	<u>£nil</u> =====

ARMCO MERCHANDISING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 1987

1. ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention.

TURNOVER

Turnover represents the invoiced value of goods and services supplied during the year, excluding value added tax.

TANGIBLE FIXED ASSETS

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Plant and equipment	- 25% on cost
Office equipment	- 25% on cost

LEASED ASSETS

Rentals payable under operating leases are charged to profit and loss account, as incurred, over the lease term.

DEFERRED TAXATION

Provision is made for deferred taxation using the liability method in respect of timing differences to the extent that it is probable that the liability will crystallise, in the foreseeable future.

FOREIGN CURRENCY AMOUNTS

Foreign currency transactions arising during the year are translated using rates prevailing at the time of the transaction. Foreign currency balances at the year end are translated at rates prevailing at the balance sheet date. Exchange gains and losses are credited or charged to profit and loss account.

STOCKS

Stocks are stated at the lower of cost and net realisable value. Cost is defined as standard cost including appropriate manufacturing overheads, adjusted by purchase and production variances, determined on a first-in, first-out basis.

ARMCO MERCHANDISING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 1987 (continued)

2. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the company. An analysis of turnover is given below:

	<u>1987</u> £	<u>1986</u> £
United Kingdom	3,612,216	-
Overseas	21,991	-
	<u>£3,634,207</u> =====	<u>£ -</u> =====

3. OPERATING PROFIT

The operating profit is stated after charging:

Depreciation of tangible fixed assets	2,850	-
Auditors' remuneration	4,500	-
Operating lease rentals	12,074	-

4. STAFF COSTS

Wages and salaries	63,103	-
Social security costs	4,560	-
Other pension costs	7,598	-
	<u>£75,261</u> =====	<u>£ -</u> =====

The average weekly number of employees during the year was as follows:

	<u>Number</u>	<u>Number</u>
Sales	5	-

Staff costs include the following remuneration in respect of directors of the company:

Management remuneration	£24,872	£ -
	=====	=====

The emoluments (excluding pension contributions) were paid to:

The highest paid director	£24,872	£ -
	=====	=====

None of the other directors received any emoluments in the year (1986 - £nil).

ARMCO MERCHANDISING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 1987(continued)

5. OTHER OPERATING INCOME

Commissions receivable	£102,574	£ -
	=====	===

6. TAXATION

	<u>1987</u>	<u>1986</u>
	£	£
Corporation tax at 35%	£7,000	£ -
	=====	=====

The charge for the year has been reduced by £47,000 as a result of the utilisation of tax losses transferred from Armco Limited. The amount of losses transferred is still subject to agreement with the Inland Revenue, but in the opinion of the directors will not be less than that required to offset the trading profit for the period.

7. TANGIBLE FIXED ASSETS

	<u>Plant and equipment</u> £	<u>Office equipment</u> £	<u>Total</u> £
COST			
Transfer from group company	3,330	1,668	4,998
Additions	-	11,401	11,401
	-----	-----	-----
At 31 October 1987	3,330	13,069	16,399
	-----	-----	-----
DEPRECIATION			
Transfer from group company	3,330	1,668	4,998
Charge for year	-	2,850	2,850
	-----	-----	-----
At 31 October 1987	3,330	4,518	7,848
	-----	-----	-----
NET BOOK VALUES			
At 31 October 1987	£ -	£8,551	£8,551
	===	=====	=====
At 1 November 1986	£ -	£ -	£ -
	===	===	===

8. STOCKS

Goods for resale	£112,572	£ -
	=====	===

9. DEBTORS

Trade debtors	1,007,625	-
Other debtors	56,055	-
Prepayments	2,037	-
Amounts owed by group companies	69,458	100
Net assets of discontinued business	7,270	-
	-----	-----
	£1,142,445	£100
	=====	=====

ARMCO MERCHANDISING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 1987 (continued)

10. CREDITORS: Amounts falling due within one year:	<u>1987</u>	<u>1986</u>
	£	£
Trade creditors	483,767	-
Corporation tax	7,000	-
Other creditors	25,693	-
Accruals	12,137	-
Amounts owed to group companies	465,851	
	<u>£994,448</u>	<u>£ -</u>
	=====	=====

11. CALLED UP SHARE CAPITAL

Authorised		
500,000 ordinary shares of £1 each	£500,000	£500,000
	=====	=====
Allotted, called up and fully paid		
455,000 ordinary shares of £1 each	£455,000	£100
	=====	===

On 1 November 1986, 454,900 ordinary shares of £1 each were allotted as partial consideration for the acquisition of the steel mill merchandising business of Armco Limited.

12. PROFIT AND LOSS ACCOUNT	<u>1987</u>	<u>1986</u>
	£	£
Balance at 1 November 1986	-	-
Profit for year	133,160	-
	<u>£133,160</u>	<u>£ -</u>
Balance at 31 October 1987	=====	=====

ARMCO MERCHANDISING LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 1987 (continued)

13. LEASING COMMITMENTS

At the year end the company had annual commitments under non-cancellable operating leases as set out below:

	<u>1987</u> £	<u>1986</u> £
Operating leases which expire:		
Within one year	11,748	-
Within two to five years	9,648	
Over five years	-	
	<u>£21,396</u>	<u>£ -</u>
	=====	=====

14. CONTINGENT LIABILITIES

The company's bankers hold a counter indemnity dated 8 January 1987 relating to H M Customs and Excise guarantee in the sum of £55,000 dated 29 December 1986

15. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is Armco Inc., a company incorporated in the United States of America.